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B-118754
Prices Paid For Property Acquired
In Urban Renewal Programs
In The District Of Columbia *B-118754*

Department of Housing
and Urban Development

*April, May, June
1973*

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-118754

Dear Mr. Gross:

This is our report on certain property acquisitions in urban renewal programs in the District of Columbia. Our inquiry was made pursuant to your request of April 10, 1972, and subsequent discussions with our representatives.

In accordance with your instructions, we did not obtain written comments from the Department of Housing and Urban Development or other parties involved in the matters discussed in the report. This fact should be considered in any use made of the information presented.

We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

(SIGNED) ELMER B. STAATS

Comptroller General
of the United States

The Honorable H. R. Gross
House of Representatives

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ABBREVIATIONS

GAO	General Accounting Office
HUD	Department of Housing and Urban Development
LPA	local public agency
NCPC	National Capital Planning Commission
NDP	Neighborhood Development Program
RLA	Redevelopment Land Agency

COMPTROLLER GENERAL'S REPORT TO
THE HONORABLE H. R. GROSS
HOUSE OF REPRESENTATIVES

PRICES PAID FOR PROPERTY ACQUIRED
IN URBAN RENEWAL PROGRAMS
IN THE DISTRICT OF COLUMBIA
Department of Housing and Urban
Development B-118754

D I G E S T

WHY THE INQUIRY WAS MADE

At the request of Congressman H. R. Gross, the General Accounting Office (GAO) examined certain property acquisitions in urban renewal programs in the District of Columbia. GAO's examination covered

- procedures and practices followed by the Redevelopment Land Agency (RLA) in acquiring sites for the construction of 54 townhouses for low-income families in the Shaw school urban renewal area,
- consideration of whether prices paid for the townhouse sites represented a pattern of prices paid by RLA in acquiring urban renewal property, and
- certain aspects of RLA's acquisition of square 515 for high-density housing in the downtown urban renewal area.

In accordance with the Congressman's instructions, GAO did not obtain written comments from the Department of Housing and Urban Development (HUD) or others involved in matters discussed in this report.

FINDINGS AND CONCLUSIONS

Sites for the construction of townhouses in the Shaw school urban renewal area

In January 1969 RLA requested a \$33.3 million Federal grant from HUD to carry out urban renewal activities during the first action year of the Neighborhood Development Program in the Shaw school and downtown urban renewal areas. The next month HUD awarded RLA a grant of \$29.7 million.

RLA estimated that about \$12 million would be used to acquire 259 parcels of land in the Shaw school area. The townhouses are being constructed on four of the 259 parcels. (See p. 9.)

The four parcels were recommended for low-income housing by citizen groups in the Shaw school area and were approved by RLA, the National Capital Planning Commission, the District of Columbia City Council, and HUD. (See pp. 9 and 11.)

The general land-use plan for the Shaw school urban renewal area specified that only low-density

housing could be constructed on the sites designated for the townhouses. RLA officials told GAO that, because of this housing density requirement, townhouses were the most suitable type of housing to be constructed on these relatively small sites. (See p. 10.)

HUD officials told GAO that their approval of the Shaw school area sites for construction of the 54 townhouses would conform to the overall development plans for the Shaw school area as set forth in the urban renewal plan and would fulfill one of the main goals of the city's urban renewal program--to provide low-income housing for people living in the Shaw school area. (See p. 11.)

RLA obtains two independent appraisals before purchasing property for urban renewal. The property is appraised at its fair market value on the basis of the property's zoning classification at the time it is appraised. RLA establishes a purchase price primarily on the basis of these appraisals and submits it to HUD for approval. (See pp. 11 and 12.)

RLA acquired the sites for \$1,497,660. This amounts to about \$27,700 for each of the 54 townhouses to be constructed on the sites. RLA subsequently sold the sites to a nonprofit developer, D.C. Frontiers, Inc.

The schedule below shows the prices

paid and the prices received by RLA.

The large differences between the prices paid and the prices received resulted because RLA had acquired the land while it was zoned as commercial property, whereas, in compliance with the HUD-approved general land-use plan for the Shaw area, the land was rezoned as residential property before it was sold to the developer.

Prices paid by HUD for other urban renewal land

GAO examined 35 other commercial property acquisitions in four urban renewal areas--Shaw school, 14th Street, H Street, and downtown--to determine whether the amounts paid by RLA for the townhouse sites were representative of the amounts paid for other urban renewal properties.

The square-foot cost of the 35 properties averaged \$23.45, compared with an average square-foot cost of \$14.79 for the townhouse sites. Because of the many variables in the property acquisitions, GAO could not realistically compare the costs of these properties with the costs of the townhouse sites. (See p. 18.)

Acquisition of square 515

The HUD-approved land-use plan for the downtown urban renewal area called for high-density residential housing to be constructed on square 515. The Wax Museum, operated by

<u>Parcel</u>	<u>Paid by RLA</u>	<u>Received by RLA</u>	<u>Difference</u>
1	\$ 755,000	\$31,500	\$ 723,500
2	187,500	10,500	177,000
3	77,660	5,250	72,410
4	477,500	9,450	468,050
	<u>\$1,497,660</u>	<u>\$56,700</u>	<u>\$1,440,960</u>

Historic Figures, Incorporated, is located on square 515. (See p. 19.)

In February 1969 RLA received HUD approval to acquire 23 parcels of land (including the four parcels comprising square 515) in the downtown urban renewal area at a cost of \$7.4 million. However, the total appraised value of the four parcels in square 515--the May 1969 appraisal was \$8.7 million and the July 1969 appraisal was \$7.8 million--exceeded the estimated acquisition cost of the 23 parcels. (See p. 20.)

In January 1970 HUD stated that it would not permit RLA to acquire the four parcels because their estimated acquisition cost was almost \$3 million more than HUD was legally committed to pay to fund the Neighborhood Development Program in the downtown area. (See p. 21.)

At HUD's request RLA provided information concerning its ability to complete the first program year's activities within the initially approved budget.

On May 8, 1970, a trustee for one of the property owners filed a \$6 million law suit against HUD, RLA, the National Capital Planning

Commission, and the District of Columbia, charging them with inaction to acquire land as previously authorized and approved by HUD.

A HUD official told GAO that a U.S. attorney had determined that HUD had a legal commitment to purchase the four parcels. On December 24, 1970, HUD approved the acquisition of the four parcels and the lawsuit was dismissed. (See p. 22.)

As of December 1972 RLA had acquired three of the four parcels for \$8,235,000. The fourth parcel is being taken through eminent domain proceedings. (See p. 19.)

Plans are being made to find a new site for the Wax Museum. Square 537 Associates, Incorporated, proposed leasing square 537 in the southwest urban renewal area of the District from RLA. HUD approved this proposal on October 31, 1972, and the RLA Board of Directors approved it on November 1, 1972.

The firm plans to construct a building on the site. Historic Figures, Incorporated, which has at least a 10-percent direct or indirect beneficial interest in Square 537 Associates, has indicated an intent to lease space in the firm's building to house its Wax Museum. (See p. 25.)

CHAPTER 1

INTRODUCTION

At the request of Congressman H. R. Gross, we examined certain property acquisitions in urban renewal programs in the District of Columbia. Our review covered

- procedures and practices followed by the Redevelopment Land Agency (RLA) in acquiring sites for the construction of 54 townhouses for low-income families in the Shaw school urban renewal area,
- consideration of whether the prices paid for the townhouse sites represented a pattern of prices paid by RLA in acquiring urban renewal property, and
- certain aspects of RLA's acquisition of square 515 for high-density housing in the downtown urban renewal area.

BACKGROUND OF THE URBAN RENEWAL PROGRAM

The Department of Housing and Urban Development (HUD) is authorized, under the Housing Act of 1949 (42 U.S.C. 1441), to provide Federal financial assistance to local public agencies (LPAs) for urban renewal programs.

These programs include acquisition and clearance of properties, rehabilitation of existing structures, relocation of residents who are displaced by urban renewal activities, and disposition of urban renewal land to public or private developers for redevelopment in accordance with an urban renewal plan.

HUD provides financial assistance to LPAs through planning advances, loans, and grants. Generally, in communities with populations exceeding 50,000, HUD pays two-thirds of the total project costs; in communities with populations of 50,000 or less, HUD pays 75 percent of these costs. Urban renewal activities are administered locally by public agencies, which can be State, county, municipal, or other governmental entities or public bodies.

Under the Housing Act of 1968, the Neighborhood Development Program (NDP) was established as an alternate way to fulfill the objectives of the urban renewal program. Under NDP more rapid renewal is anticipated because urban renewal activities are to be simultaneously planned and carried out on an "action" year basis.

THE URBAN RENEWAL PROGRAM IN
THE DISTRICT OF COLUMBIA

The urban renewal program in the District of Columbia, started in October 1950, consists of 10 urban renewal areas, some of which are under NDP. The NDP areas include the Shaw school urban renewal area, where the 54 townhouses are being constructed, and an area identified as the downtown urban renewal area. From the inception of the urban renewal program through December 31, 1971, HUD had awarded about \$192 million in Federal grants for urban renewal activities in the city. HUD had disbursed about \$103 million of the grant funds through December 31, 1971.

Several organizations are involved in carrying out the urban renewal program.

- RLA (the local public agency for the District of Columbia) has primary responsibility for carrying out the urban renewal program.
- The National Capital Planning Commission (NCPC) (the central planning agency for the Federal and District of Columbia Governments) plans the development and redevelopment of the National Capital and approves RLA's proposed urban renewal program.
- The City Council of the District of Columbia approves RLA's proposed urban renewal program.
- Citizen groups, such as the Uptown Progress Committee, Incorporated, and the Model Inner City Community Organization, Incorporated, participate in planning urban renewal activities.

SHAW SCHOOL URBAN RENEWAL AREA

The boundaries of the Shaw school urban renewal area were established by RLA and were approved by NCPC in April 1966. The area encompasses about 680 acres in the north-west section of the city and is bounded by Florida Avenue, North Capitol Street, M Street, and 15th Street. (See map on p. 27.)

RLA has cited the area as one of the most seriously blighted in the city, consisting mostly of 50- to 75-year-old row houses. RLA has stated that there is an average of 63 dwelling units on each acre, that most of the public and community facilities are inadequate and obsolete, and that the public schools are severely overcrowded. According to a 1968 RLA survey, 32 percent of the families in the Shaw school area have annual incomes of less than \$3,000 and another 27 percent of the families have annual incomes between \$3,000 and \$5,000.

In 1966 HUD approved a planning advance of \$2.9 million for RLA to use in preparing a detailed plan for renewal of the Shaw school area.

According to RLA officials, RLA, NCPC, and several citizen groups coordinated their efforts in planning proposed urban renewal activities in the Shaw school area. From these efforts, plans for long-range urban development, general land use, land disposition, and site development were formulated. NCPC and the City Council of the District of Columbia approved these plans in January 1969.

NCPC stated that the land-use plan for the Shaw school area complied with its comprehensive land-use plan which it had prepared in February 1967 to fulfill its statutory responsibilities for planning land development in the Nation's Capital. Under the Shaw school general land-use plan, physical conditions in the area are to be significantly changed. These changes include rehabilitation, demolition, new construction, and establishment of open-space areas, some of which will require rezoning of land. A map illustrating the Shaw school urban renewal area general land-use plan is included as appendix I.

DOWNTOWN URBAN RENEWAL AREA

The comprehensive plan for the National Capital gave a high priority to renewing the downtown urban renewal area. RLA established the downtown urban renewal area boundaries in 1968 and NCPC and the District of Columbia City Council approved them in January 1969. The area encompasses about 615 acres in the northwest section of the city and is bounded by M Street, Massachusetts Avenue, North Capitol Street, Pennsylvania Avenue, and 15th Street. (See map on p. 28.)

The goal of the downtown urban renewal program is to stop the spread of physical, social, and economic blight and to restore the area to its appropriate role as an employment and residential center of the city.

CHAPTER 2

SITES FOR CONSTRUCTION OF TOWNHOUSES IN THE

SHAW SCHOOL URBAN RENEWAL AREA

In January 1969 RLA requested a \$33.3 million Federal grant from HUD to carry out certain urban renewal activities during the first action year of NDP in the Shaw school and downtown urban renewal areas. The next month HUD approved a total budget of \$42.9 million for survey, planning, land acquisition, and rehabilitation activities in these two areas and awarded a \$29.7 million Federal grant as the Federal share of the budget. RLA estimated that approximately \$19 million would be used to acquire a total of 282 parcels of land in the two urban renewal areas, as follows:

<u>Urban renewal area</u>	<u>Number of parcels to be acquired</u>	<u>RLA's estimate of the acquisition costs</u>
Shaw school	259	\$12,011,159
Downtown	<u>23</u>	<u>7,365,870</u>
Total	<u>282</u>	<u>\$19,377,029</u>

According to RLA's application, its estimates of the cost of acquiring the land generally were based on assessed values and sales of comparable properties in the city. The RLA application shows that the four parcels on which the 54 townhouses are being constructed were included in the 259 parcels in the Shaw school area. Because it was not required by HUD regulations, RLA did not provide HUD with the estimated acquisition costs of the individual parcels until they were to be purchased. Therefore HUD, without knowing RLA's estimate of the acquisition price for the townhouse land, approved the total estimated cost of acquiring land in the Shaw school area when it approved RLA's grant application.

RLA SELECTION OF SITES

RLA officials told us that two citizen groups--the Model Inner City Community Organization, Incorporated, and the Uptown Progress Committee, Incorporated--recommended to RLA that it acquire certain sites, including the townhouse sites,

in the Shaw school urban renewal area for the development of low-income housing. RLA officials further told us that they evaluated all such sites suggested by the citizen groups in terms of the budgetary constraints imposed on RLA by HUD, the HUD regulations and requirements pertaining to such land acquisitions, the amount of demolition needed, and the number of families and businesses that would require relocation.

According to RLA officials, townhouses were suitable for the four parcels because the general land-use plan prepared in February 1967 for the Shaw school urban renewal area specified that only low-density housing could be constructed on these sites. They added that other types of housing, such as high-rise apartment buildings, could only be constructed where the approved housing density was two or three times greater than that approved for the townhouse sites.

RLA officials told us also that selection of the townhouse sites in the Shaw school urban renewal area was consistent with the city's urban renewal objective because

- buildings on the sites were severely damaged during the civil disturbances of April 1968;
- most of the land was vacant and therefore would require only minimum demolition and virtually no relocation of families and businesses;
- in accordance with the general land-use plan for the Shaw school area, the sites could be used for low-density housing (no more than 30 housing units per acre), which would allow RLA to provide housing for large families as they became displaced by other urban renewal activities in the city;
- approximately 75 percent of the persons displaced by other urban renewal activities in the city and living in the Shaw school area were eligible for public housing assistance;
- low-income families occupied approximately two-thirds of the housing units in the Shaw school area; and

--under a HUD-sponsored program, low-income families would be given the opportunity to own homes, which is one of the basic objectives of the urban renewal program in the Shaw school area.

In November and December 1969, NCPC and the City Council of the District of Columbia, respectively, approved RLA's plans to construct the townhouses on the Shaw school area sites.

HUD APPROVAL OF SITES

At the time HUD approved the \$29.7 million Federal grant for RLA renewal activities, it did not have advice on (1) the specific type of housing that RLA planned to construct on the sites, (2) whether the housing units were to be publicly or privately owned, and (3) whether low-income families would occupy the units.

HUD officials told us that, in most instances when land is acquired, HUD does not know the specific plans for land development. According to the HUD officials, land development plans may change many times, during negotiations with developers and interested citizens groups, before LPA presents them to HUD. The officials stated that it would be impossible for HUD to be aware of all plans for land development.

HUD officials told us that construction of the 54 townhouses on the Shaw school sites would conform to the overall development plans for the Shaw school area as set forth in the urban renewal plan and would fulfill one of the main goals of the city's urban renewal program--to provide low-income housing for the people living in the Shaw school area.

RLA PURCHASE OF SITES

Under HUD regulations, LPAs are to obtain two independent appraisals before purchasing property for urban renewal. Appraisers approved by HUD and the Department of Justice to perform appraisals for RLA must comply with the procedures of the American Appraisal Institute. The appraiser must consider all three appraisal methods--cost, income, and market data--and select the one applicable to each property.

Regardless of the method used, the property must be appraised at its fair market value on the basis of its zoning classification at that time. According to RLA, HUD and the Department of Justice had approved the appraisers of the properties discussed in this report. In our opinion, they followed the applicable procedures.

RLA establishes a purchase price primarily on the basis of these appraisals and submits it to HUD for approval. If RLA and the property owner cannot agree on a price within 120 days from the date the owner is notified of the HUD-approved price, RLA initiates condemnation proceedings by filing an action of eminent domain with the Department of Justice.

The townhouses are being constructed on four parcels, which contain 11 separate properties totaling 101,234 square feet. Two of the properties--one previously owned by the Westminster Investing Corporation and one by the United Community Services--accounted for about 80 percent of the total cost of the 11 properties acquired by RLA.

Two of the 11 property owners accepted the HUD-approved prices. Five owners--through negotiations with RLA--obtained higher prices than were initially established by RLA and approved by HUD. For the remaining four properties RLA started condemnation proceedings; however, the owners and RLA arrived at mutually acceptable prices which, in each case, were greater than the prices initially set by RLA and approved by HUD. RLA paid a total of \$1,497,600 for the 11 properties. This amounts to about \$27,700 for each of the 54 townhouses to be constructed on the sites.

The following table shows pertinent information about the property acquisitions.

<u>Acquisition lot number</u>	<u>Appraisal amounts</u>	<u>Price initially approved by HUD</u>	<u>RLA purchase price</u>	<u>RLA purchase price over or under (-) high appraisal</u>	<u>RLA pur- chase price over price initially approved by HUD</u>
Square 239, lot 124	\$700,000 692,000	\$ 700,000	\$ 755,000	\$ 55,000	\$ 55,000
Square 313, lots 17 and 18	42,060 29,500	29,500	31,000	-11,060	1,500
Square 313, lot 801	25,400 18,500	18,500	19,500	-5,900	1,000
Square 313, lot 800	53,750 45,000	45,000	45,000	-8,750	-
Square 313, lot 6	39,500 30,000	30,000	32,000	-7,500	2,000
Square 313, lots 19 and 845	72,750 55,000	55,000	60,000	-12,750	5,000
Square 314, lot 26	17,000 16,500	17,000	17,000	-	-
Square 314, lots 24 and 25	35,000 35,000	35,000	39,660	4,660	4,660
Square 314, lot 23	20,000 18,500	20,000	21,000	1,000	1,000
Square 314, lot 27	22,000 21,250	22,000	27,500	5,500	5,500
Square 314, lot 800	420,000 386,500	400,000	450,000	30,000	50,000
Total		<u>\$1,372,000</u>	<u>\$1,497,660</u>	<u>\$ 50,200</u>	<u>\$125,660</u>

Ownership of property purchased by RLA

Pertinent information concerning ownership of the 11 properties, including the dates of acquisition by the owners and the dates and costs of acquisition by RLA, is shown in appendix III.

As mentioned earlier, most of the land purchased by RLA for the construction of 54 townhouses in the Shaw school urban renewal area was owned by two organizations--the Westminster Investing Corporation, a subsidiary of a British corporation in London, England, and the United Community Services, a nonprofit organization in Washington, D.C.

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Westminster Investing Corporation property

RLA records showed that the Westminster Investing Corporation purchased lot 124 in square 239--a 1.27-acre property at 14th and S Streets, NW.--on April 5, 1963, for \$398,259. In 1969, at the time RLA planned to purchase this land, it was zoned as commercial property and was being leased to Parking Management, Incorporated, as a parking lot.

RLA had the property appraised by two independent appraisers. One appraisal report, dated March 12, 1969, valued the property at \$692,000; the other appraisal report, dated March 14, 1969, valued it at \$700,000. On April 30, 1969, RLA offered the Westminster Investing Corporation HUD's approved price of \$700,000 for the property. The Westminster Corporation stated that the amount was inadequate and had the property appraised by another appraiser who valued the property at \$830,250.

RLA files show that the RLA realty acquisition officer stated that the appraisal obtained by the Westminster Investing Corporation was too high because the appraiser (1) had improperly adjusted the value of the property in establishing a basic value for the land and (2) for comparability purposes had used the amounts received for three properties which had zoning classifications not comparable to that of the Westminster property.

In May 1969 RLA increased the amount offered to the Westminster Investing Corporation to \$755,000. In its letter to the corporation, RLA stated that the new offer of \$755,000 was a compromise by RLA to avoid legal action in acquiring the property and in its opinion did not constitute a true estimate of the fair market value of the property. The corporation accepted the \$755,000 offer. On July 1, 1969, HUD approved the amount, and on July 24, 1969, RLA acquired title.

United Community Services property

RLA records show that United Community Services had purchased lot 800 in square 314--a .39-acre property at 11th and M Streets, NW.--on March 2, 1956. When RLA wanted to acquire the property in 1969 it was a commercially zoned vacant lot.

One appraiser, in his report dated March 12, 1969, valued the property at \$386,500. The second appraiser in his report dated March 14, 1969, valued the property at \$420,000. On May 8, 1969, RLA notified United Community Services that it would pay HUD's approved price of \$400,000 for the property.

United Community Services retained two additional appraisers for the property. One valued the property at \$465,000 and the other valued it at \$473,000. On August 28, 1969, RLA increased its offer to \$430,000. United Community Services rejected RLA's offer and advised RLA that it would not sell the property for less than \$450,000.

In September 1969 RLA requested HUD to approve a price of \$450,000 for the property. HUD denied the request and said that the appraisers hired by the owner of the property made inequitable assumptions in arriving at the appraised values.

In February 1970 RLA started condemnation proceedings to acquire the property. The Department of Justice began negotiations with the property owners to avoid a court trial. In May 1970 an attorney of the Department of Justice advised RLA that it should pay United Community Services \$450,000 for the property because this amount was within the range of the appraised values established by the four independent appraisers and because it was highly unlikely that RLA would be successful in obtaining the property for less than this amount if the matter were resolved by the courts. The attorney also advised RLA that, in accepting United Community Services' offer, RLA would avoid the cost of necessary legal actions to obtain the property.

In July 1970 HUD told RLA that it would approve a price of \$450,000 for the property. On September 28, 1970, RLA acquired the property for \$450,000.

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We reviewed HUD's central office personnel directories for the period October 1968 to June 1971 and RLA personnel records for the period January 1966 through July 1972. The individuals listed as employees of HUD or RLA neither owned

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nor were officials of the organizations that owned the properties acquired by RLA.

We also discussed the amounts paid by RLA for the Westminster property with an individual who had been quoted in a local newspaper as stating that RLA paid the Westminster Investing Corporation an excessive amount for the property. The individual told us that he was not an appraiser and that his views of the land purchase, as reported by the press, were based predominantly on his many years of experience in real estate transactions in the Washington metropolitan area. He stated that, because the property is in an undesirable location--an area with a high crime rate and much vice and drug traffic--and because property values in the area should have declined as a result of the 1968 riots, he believes RLA paid an exorbitant price for the property.

An RLA official told us that property to be purchased by RLA for urban renewal is to be valued according to its highest possible use on the basis of zoning at the time of purchase. This procedure complies with HUD's provision for making appraisals, as discussed on pages 11 and 12. The official stated that the appraisers, in arriving at an appraised value, considered prices of comparable properties sold in the city in recent years.

RLA SALE OF SITES

The four parcels of land on which the townhouses are being constructed were sold to a nonprofit developer--D.C. Frontiers, Incorporated--in April 1972 for \$56,700. The schedule below shows the prices paid and the prices received by RLA.

<u>Parcel</u>	<u>Paid by RLA</u>	<u>Received by RLA</u>	<u>Difference</u>
1	\$ 755,000	\$31,500	\$ 723,500
2	187,500	10,500	177,000
3	77,660	5,250	72,410
4	<u>477,500</u>	<u>9,450</u>	<u>468,050</u>
	<u>\$1,497,660</u>	<u>\$56,700</u>	<u>\$1,440,960</u>

The amounts paid by D.C. Frontiers were based on two independent appraisals in February 1970. HUD approved the land disposition price pursuant to the provisions of section 107(a) of title I of the Housing Act of 1949, as amended, which permit the sale of land at a fair value for use in providing housing for families or individuals of low or moderate incomes.

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The large differences between the prices paid and the prices received resulted because RLA acquired the land while it was zoned as commercial property, whereas the land, in compliance with the HUD-approved general land-use plan for the Shaw area, was rezoned as residential property before it was sold to the developer.

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CHAPTER 3

PRICES PAID BY RLA FOR

OTHER URBAN RENEWAL PROPERTIES

We examined other property acquisitions in four urban renewal areas--Shaw school, 14th Street, H Street, and downtown--to determine whether the amounts paid by RLA for the townhouse sites were representative of amounts paid by RLA for other urban renewal properties. We selected 35 commercial properties in the four urban renewal areas for which RLA paid \$100,000 or more each during the period March 1969 to April 1972.

The square-foot cost of the 35 properties ranged from \$5.41 to \$269.51 and averaged \$23.45, compared with a range of \$8.79 to \$26.21 and an average of \$14.79 per square foot for the townhouse sites. A schedule showing the prices paid by RLA for the townhouse sites and the 35 properties is presented in appendix IV.

Because of many variables in the property acquisitions, such as the wide disparity in the square-foot costs paid by RLA for the properties and the locations of the properties, we cannot realistically compare RLA's costs for these properties with RLA's costs for the townhouse sites.

CHAPTER 4

ACQUISITION OF SQUARE 515

The HUD-approved land-use plan for the downtown urban renewal area, adopted by NCPC and the City Council in January 1969, called for significant changes in the physical condition of the area. This plan showed that high-density residential housing was to be constructed on the parcel occupied by the Wax Museum (operated by Historic Figures, Incorporated) and three other parcels nearby. These parcels (referred to as square 515) are located in the northwest section of the city and are bounded by 4th, 5th, K, and L Streets.

A schedule showing the use and size of the four parcels at the time RLA acquired them is presented below.

<u>Parcel</u>	<u>Use</u>	<u>Size (square feet)</u>
101	Wax Museum, Bible History Wax Museum, Bay State Beef Company, and three vacant buildings	102,032
102	Porpoiseland (not operating) and a parking lot	118,549
103	Vacant	1,196
104	Vacant	<u>1,393</u>
Total		<u>223,170</u>

In 1969 RLA requested and received funds from HUD to acquire the four parcels. At the time RLA acquired them, the parcels were commercially zoned, and during 1971 RLA paid about \$8.2 million for three of the four parcels. Eminent domain proceedings have been started on the fourth parcel (103). In its application to HUD for financial assistance, RLA estimated that it would receive \$1.042 million from selling these four parcels to a developer for the construction of high-rise apartment buildings.

RLA officials told us that the four parcels were acquired because in their opinion

- the existing structures, if allowed to remain, would not be compatible with the planned residential development in the area and
- part of square 515 was vacant and could be used immediately to construct much needed housing in the area; only minimum relocation of families and businesses would be required from the other part of square 515.

COST OF ACQUIRING FOUR PARCELS

In March and April 1969, RLA advised the owners of the four parcels that their properties would be acquired for urban development. RLA obtained two independent appraisals, one dated May 20, 1969, and the other dated July 26, 1969.

<u>Parcel</u>	<u>Appraisals</u>	
	<u>May 20, 1969</u>	<u>July 26, 1969</u>
101	\$3,900,000	\$3,570,000
102	4,650,000	4,150,000
103	50,000	41,850
104	<u>60,000</u>	<u>48,750</u>
Total	<u>\$8,660,000</u>	<u>\$7,810,600</u>

In February 1969 RLA received HUD approval to acquire 23 parcels (including the above four parcels) in the downtown urban renewal area during the first action year of NDP at a cost of \$7.4 million.

After receiving the appraisals for the four parcels, HUD officials in the Philadelphia regional office, in September 1969, requested RLA officials to reconsider their plans to obtain the four parcels. The cost of acquiring these four parcels, on the basis of the appraised values--\$7.8 and \$8.7 million--would exceed the estimated acquisition costs of the 23 parcels that were to be acquired during the first action year of NDP. In September 1969 the HUD regional office in Philadelphia advised RLA that it should not proceed with its plans to acquire the four parcels because:

- The land would not be available for housing until 1972 because the operator of the Wax Museum needed sufficient time to relocate and, by including this site in the first action year of NDP, RLA would not be following its plan to concentrate on areas which could be used immediately for housing.
- The acquisition cost of the four parcels would require an expenditure of about \$8 million, and an expenditure of this magnitude should be restudied.
- The owner of parcel 102 was in bankruptcy proceedings; therefore, HUD would most likely request an additional appraisal, which would delay the acquisition of the property.

RLA, in October 1969, asked HUD to approve the acquisition of three of the above-mentioned parcels and a portion of the fourth parcel (parcel 101) immediately and to approve a commitment to purchase the remaining part of parcel 101 (Wax Museum site) at a later date.

On October 29, 1969, the HUD Assistant Regional Administrator for Renewal Assistance recommended that the Assistant Secretary for Renewal and Housing Assistance disapprove RLA's request because

- RLA's initial estimated resale value of \$1.042 million for the four parcels was based on an unrealistic value of \$4.58 per square foot, whereas the actual resale value could approximate only \$1 a square foot;
- the sites would not be available for housing construction until 1972; and
- the acquisition cost of the four parcels (approximately \$8 million, on the basis of the current appraisals) was considerably more than many other communities were receiving for their entire urban renewal programs.

HUD, in January 1970, advised the American Security and Trust Company, Washington, D.C. (trustee for one of the property owners), that HUD would not permit RLA to acquire

the four parcels. HUD said that the estimated acquisition cost of the four parcels was almost \$3 million more than HUD was legally committed to pay to fund NDP in this area.

In March 1970, however, HUD advised RLA officials that it would approve the acquisition of the four parcels if RLA demonstrated that it could complete the first year activities under NDP within the originally approved budget of \$42.9 million. RLA submitted the following information to HUD in July 1970.

<u>Description</u>	<u>Originally budgeted</u>	<u>Revised budget as of June 17, 1970</u>	<u>Surplus or deficit(-)</u>
	<u>—————(millions)—————</u>		
Shaw urban renewal area land acqui- sitions	\$12.0	\$ 8.9	\$3.1
Shaw urban renewal area rehabilitation acquisitions	1.8	2.3	-0.5
Downtown urban renewal area land acquisitions	7.4	9.8	-2.4
Noncash local grant-in-aid	9.8	9.8	-
Other expenses	<u>11.9</u>	<u>8.3</u>	<u>3.6</u>
Total	<u>\$42.9</u>	<u>\$39.1</u>	<u>\$3.8</u>

After receiving the above information, HUD said that RLA had demonstrated that all activities, including the purchase of square 515, could be accomplished under the originally approved budget.

On May 8, 1970, the American Security and Trust Company filed a \$6 million law suit in the U.S. District Court against HUD, RLA, NCPC, and the District of Columbia for damages associated with their inaction to acquire parcel 102 as previously approved by HUD at the time the grant was awarded in February 1969. However, the matter was settled without a trial. On December 24, 1970, HUD authorized RLA to acquire the four parcels. An assistant general counsel at the HUD

central office in Washington, D.C., told us that a U.S. attorney had determined that HUD had a legal commitment to purchase the four parcels. Because the discussions between HUD and the U.S. attorney were not documented, we met with the U.S. attorney who handled this case and obtained his confirmation that HUD appeared legally bound to purchase these four parcels.

As stated on page 19, RLA acquired three of the four parcels (101, 102, and 104) for \$8,235,000. In June 1971 RLA initiated condemnation proceedings to acquire parcel 103. The years the land was acquired by the owners and RLA and the amounts paid by RLA are shown below.

<u>Parcel</u>	<u>Year acquired</u>		<u>Amount paid by RLA</u>
	<u>Former owners</u>	<u>RLA</u>	
101	1964	1971	\$3,775,000
102	1963 to 1964	1971	4,420,000
103	1908	-	27,500 ^a
104	1939	1971	40,000

^aRLA declaration of taking amount.

A summary of the negotiations between RLA and the former owners follows.

Parcel 101

RLA offered \$3.285 million to the owner on December 7, 1970. The owner, who had earlier obtained his own appraisal of \$4.05 million in August 1969, rejected RLA's offer and asked for a minimum price of \$3.8 million. On January 7, 1971, the owner accepted RLA's compromise offer of HUD's approved price of \$3.775 million, and RLA took title to the property in February 1971.

Parcel 102

RLA offered the owner \$3.56 million on December 7, 1970. The owner, who had obtained appraisals of \$4.8 million and \$4.745 million in September and October 1969, respectively, rejected the offer on December 8, 1970. On December 10, 1970, RLA offered the owner HUD's originally approved price of \$4.15 million, which was rejected.

In a letter dated December 18, 1970, the owner offered a compromise price of \$4.4 million with the condition that RLA would enter into condemnation proceedings for the

property before December 31, 1970, so that the owner could obtain a long-term capital gain in 1970 to offset extensive losses experienced during the year. RLA filed a declaration of taking with the Department of Justice on December 30, 1970, for \$4.15 million.³ On February 10, 1971, an attorney of the Department of Justice recommended that RLA accept the owner's offer of \$4.4 million.

In August 1971 the Department of Justice attorney re-stated his recommendation that RLA accept the owner's offer to avoid a trial which would probably result in a higher settlement price. On November 30, 1971, the Department of Justice approved a settlement price of \$4.42 million, and RLA took title on the same day.

Parcel 103

On December 14, 1970, RLA offered \$27,500 to the attorney handling the estates of the deceased property owners. Because the attorney did not respond to the offer, RLA filed a declaration of taking for \$27,500 on June 28, 1971. As of December 1972, the case had not been settled.

Parcel 104

RLA offered the property owner \$34,800 (about \$25 a square foot) in December 1970. The owner said that he rejected the offer because he believed the parcel was just as valuable (about \$37 a square foot) as the larger parcels in square 515. To avoid the expenses and delays of condemnation, the owner offered RLA a compromise settlement of \$40,000 (about \$29 a square foot) on March 12, 1971. The HUD regional office in Philadelphia approved the settlement on March 25, 1971. On May 18, 1971, RLA took title to the property.

CURRENT STATUS OF SQUARE 515

RLA's estimated net land acquisition cost for square 515, about \$5.7 million, is based on expenditures of \$8.2 million for land acquisition less an estimated \$2.5 million for land disposition proceeds. In June 1970 RLA increased its original estimate of land disposition proceeds of \$1.042 million to \$2.5 million to reflect the updated market value of the land. An RLA official told us in June 1972 that the market value of the land was still increasing.

An RLA official told us that 1,140 apartment units were being planned for construction on square 515 and that RLA was preparing a prospectus for interested redevelopers.

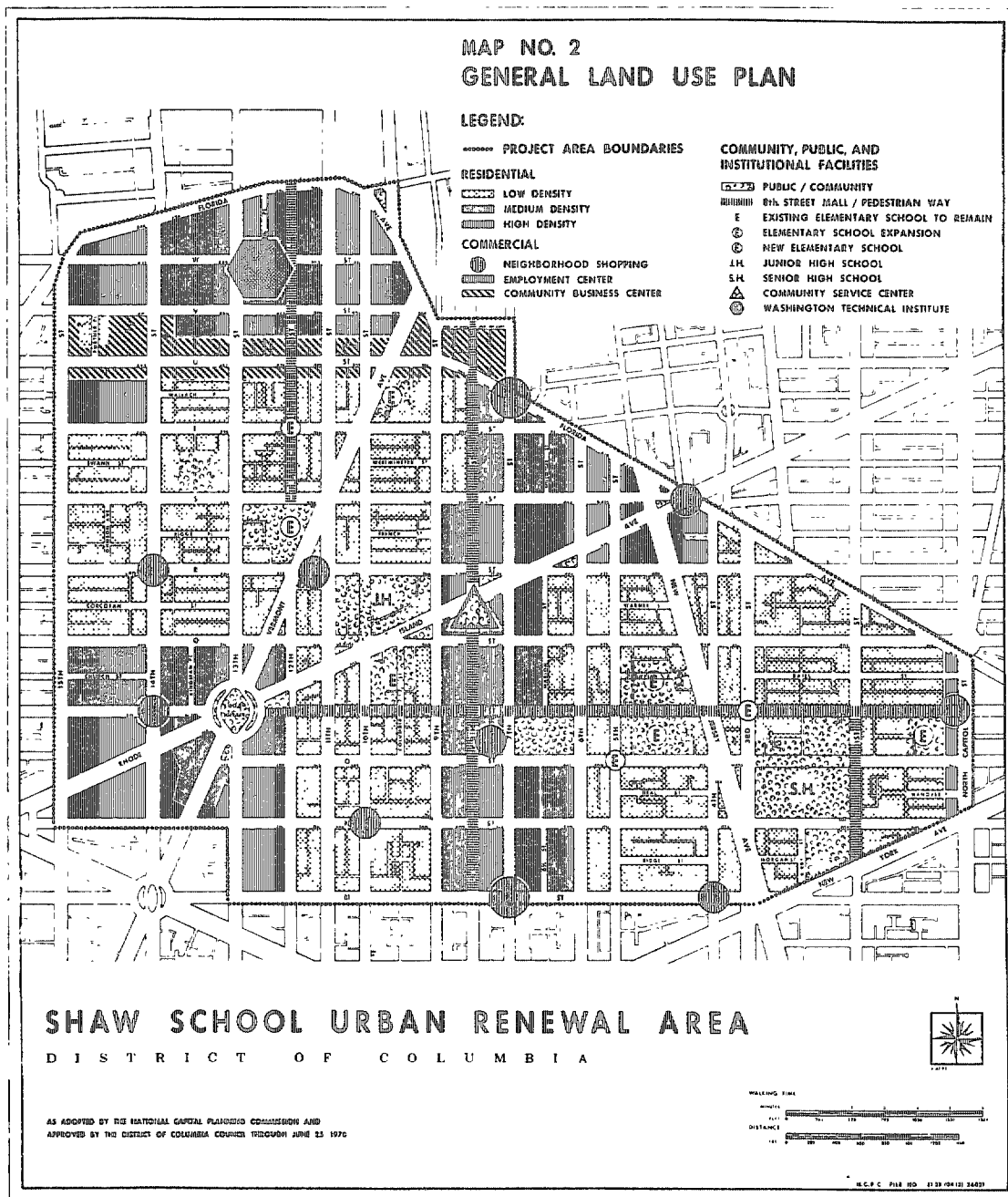
RELOCATION OF THE WAX MUSEUM

On September 7, 1972, Square 537 Associates, Incorporated, submitted a formal proposal to RLA to lease square 537 in the southwest urban renewal area of the District for 99 years. Square 537 is bounded by 3d Street, 4th Street, E Street, and Virginia Avenue, SW. and was purchased by RLA in December 1962 for \$893,000. HUD has approved a \$1.3 million disposition price for the square. An RLA official told us that this price was the basis for negotiating the lease provisions.

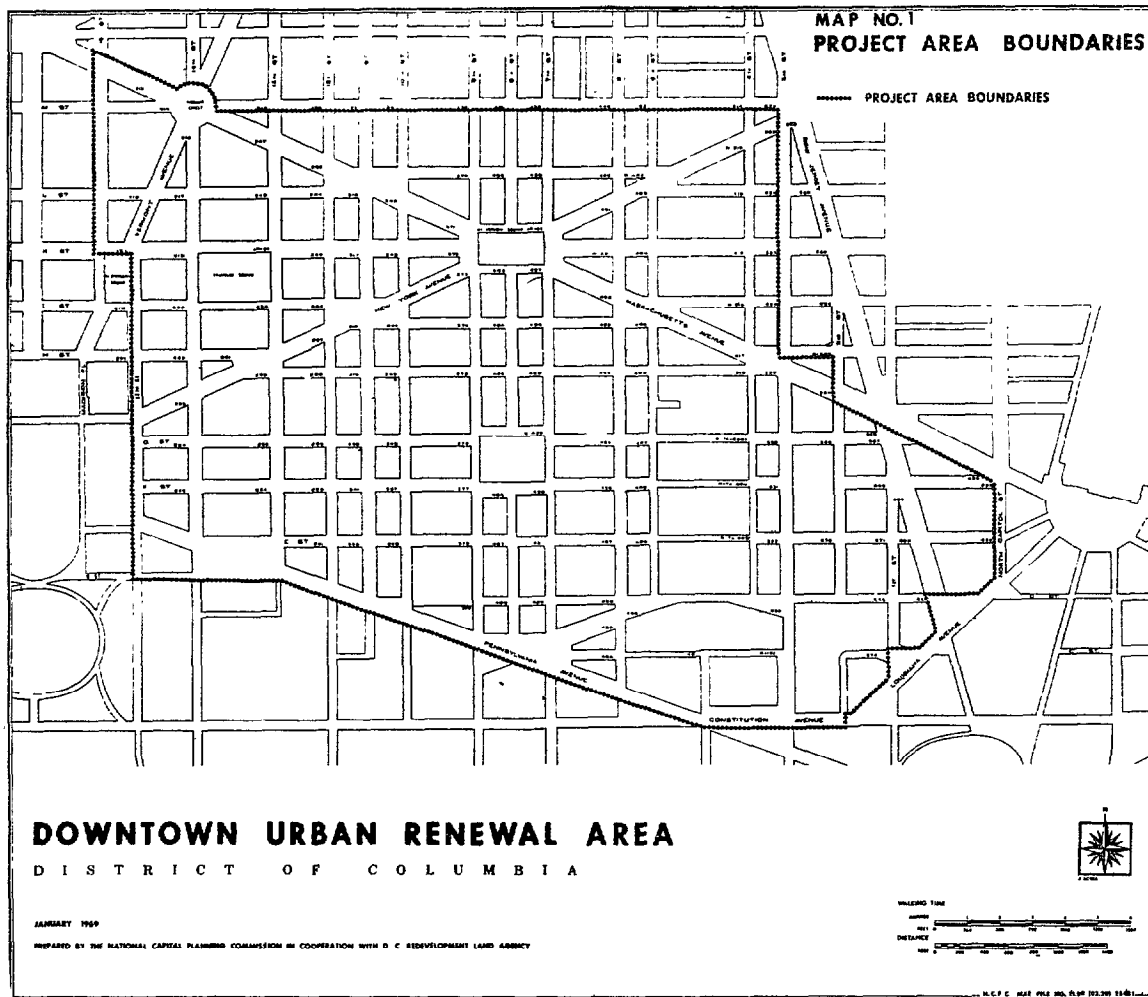
Square 537 Associates, Incorporated, proposed to build a three-level structure on square 537. The structure will include the Wax Museum, shops, and a 975-car parking garage. Total estimated development cost is about \$4.3 million.

Historic Figures, Incorporated, which has at least a 10-percent direct or indirect beneficial interest in Square 537 Associates, has signed a letter of intent to lease for 20 years from Square 537 Associates 50,000 square feet for its Wax Museum.

An RLA official told us that the proposal from Square 537 Associates was approved by HUD on October 31, 1972, and by the RLA Board of Directors on November 1, 1972. The lease with RLA provides for a fixed annual ground rent of 7.5 percent of the \$1.3 million disposition price.



APPENDIX II



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APPENDIX III

INFORMATION ON 11 PROPERTIES ACQUIRED BY RLA IN THE SHAW SCHOOL URBAN RENEWAL AREA

<u>Property</u>	<u>Square feet</u>	<u>Owner and address of property</u>	<u>Date acquired by owner</u>	<u>RLA purchase price</u>	<u>Date acquired by RLA</u>
Square 239, lot 124	55,350	Westminster Investing Corporation 1729-1735 14th St.	4- 5-63	\$755,000	7-24-69
Square 313, lots 17 and 18	3,508	Sophie and Albert Lopatin 1107 and 1109 N St.	8-22-47	31,000	4-17-70
Square 313, lot 801	2,200	Stephen Gatti and others 1105 N St.	2-18-49	19,500	4-10-70
Square 313, lot 800	4,300	Anthony and Michelle Samaha 1300-1310 11th St.	Not available	45,000	3- 5-70
Square 313, lot 6	2,502	Mary Steffel 1312 11th St.	8- 8-51	32,000	4- 1-70
Square 313, lots 19 and 845	6,505	Federal Savings & Loan Insurance Corporation 1314 and 1316 11th St.	4-18-69	60,000	4- 3-70
Square 314, lot 26	1,935	Samuel and Jean Rubin 1242 11th St.	4-26-60	17,000	6-17-69
Square 314, lots 24 and 25	3,870	John D. Lehmann (deceased) and others 1244 and 1246 11th St.	11- 5-52	39,660	7-15-71
Square 314, lot 23	1,958	Bernard Levin and others 1248 11th St.	11-18-35	21,000	4-26-71
Square 314, lot 27	1,935	Bruce and Barbara Reyle 1240 11th St.	1-11-65	27,500	4-21-70
Square 314, lot 800	17,171	United Community Services 1101 M St.	3- 2-56	450,000	9-25-70

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APPENDIX IV

PRICES PAID BY RLA FOR URBAN RENEWAL PROPERTY

	Square feet	RLA purchase price		Years held by owner (note b)
		Square foot (note a)	Total	
Townhouse sites in Shaw	55,350	\$ 13.64	\$ 755,000	6.5
	3,508	8.84	31,000	23
	2,200	8.86	19,500	21
	4,300	10.47	45,000	-
	2,502	12.79	32,000	21
	6,505	9.22	60,000	1
	1,935	8.79	17,000	9
	3,870	10.25	39,660	19
	1,958	10.73	21,000	36
	1,935	14.21	27,500	4
	<u>17,171</u>	<u>26.21</u>	<u>450,000</u>	<u>15</u>
	<u>101,234</u>	<u>\$ 14.79</u>	<u>\$ 1,497,660</u>	
Other urban renewal properties:				
Other Shaw properties	18,240	\$ 8.99	\$ 164,000	-
	13,809	9.38	129,500	3
	15,317	21.41	328,000	-
	10,960	9.90	108,500	-
	5,700	20.53	117,000	20
	10,080	10.00	100,800	21
14th Street	22,560	11.52	260,000	22
	10,125	14.50	146,800	-
	13,751	17.45	240,000	33
	5,401	22.89	123,650	17
	11,987	11.55	138,500	10.5
	14,227	10.37	147,500	7.5
	18,075	7.47	135,000	0.5
	5,733	21.28	122,000	-
	22,748	10.99	250,000	2
Downtown	4,151	114.64	475,900	7
	1,781	269.51	480,000	-
	3,102	75.09	233,000	28
	11,962	30.00	358,850	5
	13,523	20.33	275,000	-
	5,848	44.97	263,000	23
	7,021	42.73	300,000	22
	3,081	44.63	137,500	26
	3,227	40.29	130,000	0.5
	102,032	37.00	3,775,000	7
	118,549	37.28	4,420,000	8
	1,945	65.63	127,660	9.5
	1,687	100.77	170,000	8
	1,450	75.39	110,000	6
	1,402	74.89	105,000	6
	1,949	78.24	152,500	26
H Street	18,348	8.26	151,500	48.5
	17,200	9.00	154,800	44
	30,487	5.41	165,000	0.5
	<u>92,009</u>	<u>5.43</u>	<u>500,000</u>	<u>14</u>
	<u>639,467</u>	<u>\$ 23.45</u>	<u>\$14,995,960</u>	

^aSquare-foot purchase price times the number of square feet will not equal total price because of rounding.

^bWhere available, and rounded to the nearest one-half year.

Source: RLA and the Office of the District of Columbia Recorder of Deeds.